SYNOPSIS

A Study of the Impact of GST Implementation on MSME Sector

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Introduction

Introducing GST in the year 2017 in Indian economy has been considered as a path breaking reform as far as the indirect taxation is considered. GST has brought majority of the taxes on goods and services levied on traders, manufactures and sale and consumption of goods and services into single tax umbrella. Ultimate purpose of integrating various indirect taxes into single tax domain under the regime of GST is to provide transparency, avoiding double taxation, more user friendly approach with great support to the growth of Indian economy. However there was an initial resistance from the majority of the suppliers or retailers showing their unwillingness to get registered for GST to avoid burden of new rules and additional expenses of accounting as per the GST rules. Even in the entire country , the small traders and manufacturers highlighted the GST implementation as a major disaster for their survival . It also has been reported that small to medium level traders still remain confused about migration process from earlier tax system to GST and billing. Little knowledge and parity still persists on input tax credit among retailers or traders in various industries and sectors of Indian economy

GST is consumption-based tax. Levy at the point where ultimate consumer consumes the Goods or Services. GST is principle of value added tax. GST law emphasizes on voluntary compliance and accounts of GST law is based on reporting and monitoring system; GST is having continuous chain of credit where we able to shift burden to ultimate user.

(1) Inter-state supply Inter-state supplies means origin and destination of supply fall under two different states, two different UTs, state to UT and between two different countries then the supply will interstate supply and IGST would be levied.

IGST will payable to central government and central government retain CGST part from IGST itself and transfer balance part to ultimate consuming state/UT

(2) Intra-state supply intra-state supplies means where origin and destination of supply falls under same state/UT then the supply will intra-state supply and accordingly CGST and SGST/UT GST would be payable

The study introduce the new taxation system in India regarding GST and its impact on **MSME** .**MSME** have always play a vital role in Indian economy. **6.3 crore MSME** in India contribute **33%** of the GDP of the country. **MSME** provide **45%** employment to population. **MSME** Provide **90%** industry in india **there** are around **6500** product produce by **MSME**

There are two sectors in MSME
(1). Manufacturing sector (2). Service sector.
Limit for the application of GST are : **in case of service sector-20 lack**, in case of **manufacturing sector 40 lack.**
The study also focus specially on the challenges of GST and prospects there on because there are many issues exist in GST law and procedure which are considerable

Literature Review

Raichurkar & Ramachandran (2015) stated that the textile sector is considered as one amongst the oldest Indian manufacturing industry that has got 100% Foreign Direct Investment (FDI) under the automatic route. It is studied that this sector is the 2nd largest employer in the country behind the agriculture sector in India, providing employment to more than 100 million (skilled and unskilled) individuals directly or indirectly.

Apart from this, it is observed that the textile industry of India has the contribution of around 5% to the GDP and the textile exports amount 10% of the total exports of the nation. It is observed that the Indian textile industry is valued at US$ 105bn in 2015 with 9% CAGR (Kar, 2015).

Bhandari & Ray (2012) stated about the development of textile industry in India. The word 'textile' originates from a Latin word that means 'to weave'. Textile is formed when a material of natural or synthetic fibers, called yarn is weaved, knitted, crocheted and knotted simultaneously. The emergence of silk culture and cotton spinning in India dated back to 400AD and 3000BC, respectively.

Devaraja, (2011) studied that the introduction of machines for the processing of natural fibers was a consequence of the industrial revolution of the 18th and 19th centuries.

Narwal & Jindal, (2015) observed that the textile sector continued to evolve with the findings of synthetic fibers like nylon. The textile industry is categorized into

two sectors – organized and unorganized. The organized sector includes garments and apparels, spinning that use latest technologies and processes. On the other side, the unorganized textile sector comprises of small and medium scale mills, handicrafts and handlooms.

Kumar, (2014) stated that Goods and Services Tax (GST) is a latest reform in indirect tax system in India that merges 17 different taxes levied by the central and state governments into one tax system. It became effective throughout India on July 1, 2017 (Kumar, 2014).

Sehrawat & Dhanda (2017) stated that with the implementation of GST in India, the businesses listed with GST would be entitled to claim tax credit up to the value of GST paid on the purchase of goods and services. Under GST, the goods and services are taxable at one rate so that these remain indifferent from one another. supported the implementation of GST that it is a major step in the reformation of indirect tax in the country.

Nath (2017) stated that the new tax reform would substitute the indirect tax system by providing the fixed tax arrangement varying from 5 to 28% for every group of product. In addition to this, it is provided that the non-premium brands that create 80-90% of the sales would get benefitted while the premium retail brands might suffer post the execution of GST.

According to Mehta & Rajan (2017), it would be more challenging for the brands to ensure customer engagement post-GST. Moreover, the complexity and broad division within textile value chain from fiber to finished garment is also evident.

Joumard et. al. (2015) stated that the manufacturing sector in India would have positive affect with the execution of GST but it will negatively impact the textile and garments businesses. Moreover, after studying the impact of GST on the textile industry of India, it has been observed **by Mehta & Rajan (2017) that** The

Confederation of the Indian Textile Industry (CITI) has requested the parliament to minimize the tax rate of synthetic fiber and yarn under GST from 18 to 12% or else, the producers would then import such fiber and yarn at reduced prices from the

Khurana & Sharma (2016) stated that GST would have long-term benefits for the consumers as there would not be any tax-on-tax or value addition. It implies reduction in the price of the final commodity and thereby, improving product availability.

Garg (2014) further added that GST would also increase the employment and job opportunities by around 11% throughout the sector, along with ensuring better ease of doing business for the retailers.

According to the statements of Sankar (2017), it is affirmed that the GST would combine the structure of the uneven supply chain within the textile industry and would give an effective supply chain management to the textile and garment industry.

There are two classifications of the textile industry, which are organized and unorganized sectors. Since the two sectors are inter-dependent of each other, it would create certain challenges for this industry. **Dixit (2018)** specified that there are many businessmen within the textile industry that have met the minimum requirements might go with composition scheme because the liability of compliance on an individual under composition scheme is less than that of a normal individual paying tax. Moreover, there would be small weavers and others in the textile industry that would continue to be unregistered under GST because they do not meet the minimum requirements (Roy, 2018).

Objectives of the study

The objectives of the study will be as follows

- To critically examine the GST law.
- To examine the impact of GST on Indian economy with special reference to MSME sector
- To evaluate the GST problem faced by MSME
- Identify the prospects of GST problem which are faced by MSME

Research Methodology

Market research design	**:**	**Descriptive cum Exploratory**
Research Data Type	**:**	**Quantitative and Qualitative both**
Data source	**:**	**Primary & Secondary**
Research approach	**:**	**Survey & Literature study methods.**
Research instruments	**:**	**Structured Questionnaire**
Types of question	**:**	**Mostly close ended , open ended**
Sample Size	**:**	**500 MSME**
Sampling Techniques	**:**	**Convenient Sampling Technique**
Sample Population	**:**	**MSME**
Analysis Software	**:**	**SPSS (29.0 Version)**